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Agricultural Markets Outlook

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What is the Issue?

The outlook for agriculture in New York State is one of considerable uncertainty. While local conditions will also influence state and regional prices, a broader national and international perspective is necessary to better understand the consequences for agricultural markets in New York State. Each December, the Charles H. Dyson School of Applied Economics and Management at Cornell University sponsors the *Agribusiness Economic Outlook Conference*. A key portion of the conference provides New York's agricultural leaders with information about the short-and long-term outlooks for agriculture and agricultural products. This brief summarizes the key points surrounding the outlook for: (1) grains and feed, (2) dairy, (3) fruits and vegetables, and (4) grape, wine and ornamental markets.

Grain & Feed Markets

- **Wheat:** Total U.S. wheat supplies are estimated to be down 9.1% from last year; however, the reduction is expected to be more than offset by decreased use, primarily U.S. exports. Reasonable levels of stocks may diminish if high corn prices make wheat feeding more competitive. Given current information, strong competition for acres, and forecasts of lingering weather problems into 2012, historically high and volatile prices can be expected into 2012.
- **Corn:** Projected U.S. 2011 corn yields are the lowest since 2005, with total supply down 5.1% from last year. However, with over 2 million additional acres harvested this year, the crop would still be the fourth largest on record. Current ethanol use projections imply the first year-over-year reduction in usage for ethanol since the mid-1990s, with changes in ethanol policy expected to have additional impacts on markets the next two years. Look for continued tight supply-demand conditions and high feed grain prices at least through summer 2012, with strong pressure to increase U.S. corn acres to replenish stocks.
- **Soybeans:** A smaller U.S. soybean crop is projected this year. However, expectations about weaker domestic exports coupled with record exports out of Brazil have driven a softening of prices more recently. Given weaker U.S. exports, current expectations show moderated year-over-year

decreases in futures prices. However, contracts for delivery in subsequent years are trading above those for more current delivery, implying that markets are expecting continued struggles in rationing supplies relative to expected demand.

- **Feed:** Domestic feed grain utilization is projected 2.4% below last year. However, the index of grain consuming animal units is forecast up modestly, and indicative of relatively favorable output prices in meat markets. Continued strong meat demand in 2012 is expected, particularly with gains in exports to a number of Asian markets. Forecasted 2012 complete feed costs in the Northeast are down about 10% from 2011 levels, but remain well above levels realized just a few years ago.

Dairy

- **Weather:** A La Niña is forming again this year and will almost certainly prolong what is categorized as extreme or exceptional drought throughout most of Texas, Oklahoma and New Mexico in 2012. This has direct implications for dairy in that region and feedstuffs for dairy cattle throughout the country. The European Union also had significantly greater exports in 2011 than the year earlier. For example, in the first half of 2011, Ireland had increased milk production by almost 50 percent and looks forward to 2015 when their milk quota will cease to exist.
- **Debt Crisis:** The sovereign debt crisis in the EU may also have an impact on dairy markets. As the debt problems in Ireland, Portugal, Greece and Italy cause concerns in financial markets all over the world, repercussions will also affect the U.S. Investors may put their money into U.S. securities and thus strengthen the U.S. dollar. This sounds good, but it makes our exports look relatively more expensive to countries buying our dairy products.
- **Emerging Economies:** Through the global recession in 2009, we saw emerging economies like China, India and Mexico recover much more rapidly than developed countries. Their influence on worldwide dairy markets has been substantial. A newly signed free trade agreement with Korea also holds promise for increased exports. The recently settled dispute with Mexico regarding cross-border trucking should help increase cheese exports to that country by having tariffs on U.S. products lifted.

- **Prices:** Grain futures markets for corn and soybeans have moderated slightly from their high point in 2011. However, using futures market values for milk and feed prices would indicate weakening margins for 2012. It is expected that 2012 prices will decline about \$1.80 from 2011 levels. However, world demand for milk proteins could be stronger than expected as a substitute for higher priced meat proteins.

Fruits & Vegetables

- **Apples:** In 2011, total U.S. apple production is expected to be close to 9,500 million pounds. Production in Washington State (the largest apple producing state) in 2011 is forecasted to be down relative to 2010, due mostly to a reduction in fresh market apples, while production in some central states, notably Michigan, is expected to be higher in 2011 compared to 2010. In New York State, overall apple production in 2011 is expected to be down 4% compared to 2010. This decrease is due in large part to the hot and dry weather experienced during the summer months which influenced fruit size and development.
- **Vegetables:** New York State continues to be a significant producer of onions, cabbage, and sweet corn; for each of these commodities, the state has often produced crops that have a value of \$50 million or more. Historically, New York State has produced a snap bean crop that had a value exceeding \$50 million, but the snap bean crops in recent years have fallen short of this mark. A number of factors have combined to influence planting decisions and outcomes. These include historically high corn and soybean prices, a 48% decline in per capita use of canned and frozen green peas since 1971, persistent production yield challenges for New York snap bean growers, increasing concentration in the processing industry, and inventory decisions, especially for frozen vegetables, made by New York processing firms during the past four years. In 2011, record rainfall in April and May also led to a sharp reduction in acres planted.

Grape, Wine, & Ornamental

- **Wine & Table Grapes:** The quantity of grapes to be crushed for wine is likely to go down in 2011/12, mostly driven by the reduced wine grape production in Washington State. This may drive up prices growers will receive for grapes sold to wineries this season. The average grower prices were, for the most part, higher in such states as Washington, Michigan, New York, Oregon, Pennsylvania, and Virginia than in California. Forecasts for the period 2012-2014 show that total grape output is expected to grow steadily, primarily from wine and table grapes, as indicated by moderate increases in per capita consumption of these two items. Juice grape projections present a relatively stable outlook, while the per capita consumption of raisins shows a slightly downward trend.

- **Juice Grapes:** After two consecutive years of reduced juice production, the total quantity of grapes available for juice processing from this year's harvest has experienced a rebound due to recovering production in Michigan, Ohio, New York and Pennsylvania. This will likely drive down prices growers will receive from juice processors in 2011/12. Juice processors in the United States increased their international purchases by 13% from the previous season as a result of tightened domestic grape juice inventories, increased domestic grape juice consumption, reduced domestic juice grape production, and lower imports. Imports in 2011/12 could see a downward adjustment as domestic juice grape output returns to normal levels.
- **Ornamentals:** Macroeconomic indicators appear to be more stable now, but the predictions are that we will experience a period of sluggish growth with a slow recovery in the next few years. The implications for the floriculture, nursery, and landscape industries are mixed. The U.S. floriculture industry will face increased competition not only from established producers such as Ecuador, Kenya, and Malaysia, but also from the growing industries in China and India. There will be more distribution centers that are forecast to affect overall efficiency and lower transactions costs for distant producers. This may drive up the price of cut flowers and foliage.
- **Direct & Specialized Channels:** Ornamental trade will be increased through direct sales channels such as supermarkets and other retail outlets. Wal-Mart is continuing to increase purchases acquired from growers under long-term contracts, which will encourage intergradations of the producers. There will be some room in the market for the tailor-made products or delicate flowers and plants that cannot handle standardized systems, with supermarkets maximizing volume due to efficiencies in logistics. The trade channels for specialized products and for online sales are also expected to continue growth with increasing urbanization.

Final Thoughts

For the second year in a row, supply factors have played a major role in explaining prices. Lower weather-induced yields in the U.S. and repeated downsizing of production estimates brought about record prices. Growing political tensions domestically, financial crises globally, and a sluggish domestic economy struggling to rebuild from the past recession have added associated uncertainty. The outlook for the coming year is still one of considerable uncertainty about economic conditions, and prices continue to vary from day to day as news arrives in the market. Thus, this summary should be viewed as a status report as of mid-November 2011. For more information and to review the full *New York Economic Handbook* go to http://dyson.cornell.edu/outreach/ag_outlook_conference.php.

